

JIM IRVIN
COMMISSIONER - CHAIRMAN
RENZ D. JENNINGS
COMMISSIONER
CARL J. KUNASEK
COMMISSIONER



JACK ROSE
EXECUTIVE SECRETARY

0000157737

ARIZONA CORPORATION COMMISSION

DATE: DECEMBER 12, 1997

DOCKET NO. W-01408A-97-0316

TO ALL PARTIES:

Enclosed please find the recommendation of Hearing Officer Jane Rodda. The recommendation has been filed in the form of an Order on:

MT. LEMMON CO-OPERATIVE WATER CO.
(LONG-TERM DEBT)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Hearing Officer by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

DECEMBER 22, 1997

The enclosed is NOT an order of the Commission, but a recommendation of the Hearing Officer to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

JANUARY 13, 1998 and JANUARY 14, 1998

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.


JACK ROSE
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JIM IRVIN
3 COMMISSIONER-CHAIRMAN
4 RENZ D. JENNINGS
5 COMMISSIONER
6 CARL J. KUNASEK
7 COMMISSIONER

8 IN THE MATTER OF THE APPLICATION OF)
9 MT. LEMMON CO-OPERATIVE WATER CO.)
10 INC. FOR APPROVAL OF LONG-TERM DEBT.)
11 _____)

DOCKET NO. W-01408A-97-0316

DECISION NO. _____

ORDER

12 Open Meeting
13 January 13 & 14, 1998
14 Phoenix, Arizona

15 **BY THE COMMISSION:**

16 On June 26, 1997, Mt. Lemmon Co-operative Water Co., Inc. ("Mt. Lemmon," "Cooperative,"
17 or "Applicant") filed an application with the Arizona Corporation Commission ("Commission") for
18 approval of long-term debt. The Cooperative proposed to borrow \$350,000 from the United States
19 Department of Agriculture, Rural Development ("Rural Development") to finance a water line and
20 storage tank. The Commission's Utilities Division Staff ("Staff") filed its Staff Report on November 25,
21 1997, recommending approval of the application without a hearing.

22 **BACKGROUND**

23 Mt. Lemmon is a membership owned non-profit cooperative that serves approximately 360
24 customers in the community of Summerhaven located in the Santa Catalina Mountains northeast of
25 Tucson in Pima County, Arizona. Mt. Lemmon will use the loan funds to complete the remaining half
26 of a transmission main between two major storage tank sites and to construct a new 100,000 gallon
27 storage tank. Completing the transmission main will correct low pressure problems by improving the
28 distribution system's ability to deliver adequate water and maintain pressure. The new tank will replace
a corroded 30,000 gallon storage tank and will prepare the Cooperative for future surface water treatment
requirements under the Arizona Department of Environmental Quality ("ADEQ") filtration rule. A Staff
engineer reviewed the projects and the cost estimates and determined they were reasonable.

The loan from Rural Development is expected to carry an interest rate of between 5.5 and 6.0

1 percent per year and will have a maturity of 40 years. In conducting its analysis, Staff utilized an interest
2 rate of 6.5 percent to be conservative and calculated a monthly payment of \$1,988. The loan will also
3 have a reserve requirement of \$199 per month, capped at \$23,845. The Cooperative's assets and the loan
4 reserve will secure the loan. The Cooperative has approximately \$20,000 of cash and plans to pay the
5 reserve requirement with those funds.

6 As a cooperative, Mt. Lemmon's only source of capital is external debt and earnings. At the end
7 of 1996, the Cooperative's capital structure contained 58.2 percent equity. When the proposed long-term
8 debt is added to December 31, 1996 figures, long-term debt becomes 63.8 percent of the capital
9 structure.¹ As of December 31, 1996, Mt. Lemmon had a Times Interest Earned Ratio ("TIER") of 2.96
10 and a Debt Service Coverage ("DSC") Ratio of 3.41. Based on year ended December 31, 1996 results,
11 the addition of the proposed debt would reduce the TIER to .92 and the DSC to 1.45.

12 Despite projecting a net loss after the addition of the proposed debt, Staff did not recommend
13 conditioning approval of the application upon the Cooperative filing a rate case. Staff believed 1) the
14 pro forma DSC ratio indicates sufficient cash to cover the interest and principal payments; 2) the
15 Cooperative already has high rates (\$31.85 basic service charge and commodity charges ranging from
16 \$4.00 to \$10.00 per 1,000 gallons); and 3) as a non-profit cooperative, Mt. Lemmon does not need net
17 profit to pay dividends. Furthermore, Staff noted that over the last four years the Cooperative added an
18 average of eight new customers each year and that the basic service charge from an additional eight
19 customers would eliminate the estimated net loss.

20 The Pima County Department of Environmental Quality ("PCDEQ") has determined that Mt.
21 Lemmon is currently in non-compliance for failing to maintain a pressure of at least 20 psi. Staff
22 Engineering believes that the construction of the two projects to be funded by the proposed debt will
23 bring the Cooperative into compliance with PCDEQ. PCDEQ has confirmed that the Cooperative is
24 currently delivering water that does not exceed any maximum contaminant levels ("MCL") and meets
25 the Safe Drinking Water Act ("SDWA") quality standards. The Cooperative is current on its property
26 taxes.

27 _____
28 ¹ All of the Cooperative's long-term debt is from the Farmers Home Administration, the
precursor of Rural Development and carries interest rates ranging from 5.0 to 6.0 percent.

1 * * * * * * * * * * * * *

2 Having considered the entire record herein and being fully advised in the premises, the

3 Commission finds, concludes, and orders that:

4 **FINDINGS OF FACT**

5 1. Mt. Lemmon is a member-owned non-profit cooperative providing water service to

6 approximately 360 customers in the community of Summerhaven, northeast of Tucson in Pima County,

7 Arizona.

8 2. On June 26, 1997, Mt. Lemmon filed a financing application with the Commission

9 seeking authority to borrow \$350,000 in long-term debt from Rural Development for the purpose of

10 completing a transmission main and installing a new storage tank.

11 3. Rural Development will loan \$350,000 to Mt. Lemmon at an expected interest rate of

12 between 5.5 to 6.0 percent annually for a term of 40 years to be secured by the Cooperative's assets.

13 Rural Development will also require a loan reserve to be capped at \$23,845.

14 4. The loan proceeds will be used to finance the completion of a transmission main between

15 two major storage tank sites and to construct a new 100,000 gallon storage tank. The improvements are

16 expected to rectify the Cooperative's low pressure problems and to prepare the Cooperative for future

17 surface water treatment requirements under the ADEQ filtration rule.

18 5. Staff has reviewed the projects and determined that the projects and their cost estimates

19 are reasonable.

20 6. The Cooperative is not in compliance with PCDEQ regulations for failing to maintain

21 adequate water pressure. PCDEQ reports that the Cooperative has no MCL violations and is providing

22 water that meets the quality standards of the SDWA.

23 7. The Cooperative is current with its property taxes.

24 8. Staff recommended that the application be approved.

25 9. Staff's recommendation, as set forth in Findings of Fact No. 8, is reasonable.

26 **CONCLUSIONS OF LAW**

27 1. Applicant is a public service corporation within the meaning of Article XV of the Arizona

28 Constitution and A.R.S. §§40-301 and 40-302.

2. The Commission has jurisdiction over Applicant and the subject matter of the application.
3. Notice has been provided as required by law.
4. Staff's recommendation, as set forth in Findings of Fact No. 8 should be adopted.
5. The financing approved herein is for lawful purposes within Applicant's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by Applicant of service as a public service corporation, and will not impair Applicant's ability to perform that service.
6. The financing approved herein is for the purposes stated in the application and is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

ORDER

IT IS THEREFORE ORDERED that Mt. Lemmon Co-operative Water Co., Inc. is hereby authorized to borrow \$350,000 from the United States Department of Agriculture Rural Development for a term of 40 years.

IT IS FURTHER ORDERED that Mt. Lemmon Co-operative Water Co., Inc. is hereby authorized to pay all costs, engage in any transactions and execute any documents necessary to effectuate the authorization granted hereinabove.

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1 IT IS FURTHER ORDERED that such authority shall be expressly contingent upon Mt. Lemmon
2 Co-operative Water Co., Inc.'s use of the proceeds for the purposes set forth in the application.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4
5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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8 _____
COMMISSIONER-CHAIRMAN COMMISSIONER COMMISSIONER

9 IN WITNESS WHEREOF, I, JACK ROSE, Executive Secretary of the Arizona
10 Corporation Commission, have hereunto set my hand and caused the official seal
11 of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____
12 day of _____, 1997.

13 _____
JACK ROSE
EXECUTIVE SECRETARY

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15 DISSENT _____
JR/
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SERVICE LIST FOR:

MT. LEMMON CO-OPERATIVE WATER CO., INC.

DOCKET NO.:

U-1408-97-316

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